Custom Software Development

Intellectual Property and Other Key Issues

Iowa Code § 22.3A.3

- Authorizes government bodies to apply for and receive legal protection to secure a right to or an interest in "data processing software"
- Protections include copyright, patent, trademark and trade secret
- Permits sale or distribution of data processing software, including marketing and licensing agreements
- Government body may impose conditions upon the use of data processing software

Iowa Code § 22.3A.1(e)

- "Data processing software" means an ordered set of instructions or statements that, when executed by a computer, causes the computer to process data.
- Includes any program or set of programs, procedures, or routines used to employ and control capabilities of computer hardware.
- Includes, but is not limited to, an operating system, compiler, assembler, utility, library resource, maintenance routine, application or computer networking program

Ownership vs. License

- Ownership provides the greatest protection and flexibility (may be required with grants)
- It may be beneficial, in certain cases, to negotiate a licensing arrangement, provided the terms of the license agreement are carefully drafted and acceptable
- Developers may provide additional benefits to the state if they are able to retain ownership of, or other rights to, custom-developed software that is funded by the state.
- Benefits may include:
  - discounted pricing
  - royalties
  - Free/discounted maintenance or hardware

Ownership vs. License

- Another option is for the state to own the custom-developed software, but grant the developer certain rights under a license agreement (e.g., right to reproduce, modify and distribute the software)

- Complex issues can arise:
  - when third-party or open source code is embedded in or integrated with the custom software

  - when vendor is making custom modifications to pre-existing software

Ownership vs. License

- Be careful if state uses federal grant funds to pay for the development of software
- Federal law reserves to the federal awarding agency a royalty-free, nonexclusive, and irrevocable license to reproduce, publish or otherwise use, and to authorize others to use, for Federal Government purposes:
  - the copyright in any work developed under a grant, subgrant, or contract under a grant or subgrant; and

  - any rights of copyright to which a grantee, subgrantee or a contractor purchases ownership with grant support
- Obtain vendor's agreement to federal reservation of rights
- Note: state may not use federal grant funds to pay royalties or license fees for software previously developed with federal funds

Ownership

- Receive written assignment of the exclusive right, title, and interest in and to all software that will be owned by the state and all related intellectual property rights
- Don't rely solely on "works made for hire" clause
- "Works made for hire" has limited application
  - Work prepared by an employee within scope of employment (determined under general agency law)
  - Work by an independent contractor may be considered a work made for hire, if:
    - The work is commissioned as a contribution to a collective work, part of a motion picture, translation, supplementary work, compilation, instructional text, test, answer material for a test, or an atlas; and
    - Parties agree in writing that the work is a "work made for hire"

Ownership

- Seek assistance of legal counsel to evaluate options and to secure any desired IP protection with respect to custom software that will be owned by the state

- Ensure that vendor delivers source code and all applicable documentation to the state relating to the custom software

- Obtain sufficient reps, warranties, and indemnification provisions in the contract (especially WRT intellectual property)

Licensing

- Define licensee and all authorized users
- Adequately describe the rights granted and the purposes for which the software may be used
- Rights may include: use, reproduce, modify (address who owns modifications made by or on behalf of state), distribute, demonstrate, display, perform, and prepare derivative works
- Rights granted may be: perpetual vs. term, exclusive vs. non-exclusive, transferable vs. non-transferable, irrevocable vs. revocable

Licensing

- Typically, licensors will only grant licensee the right to use the software in object code form for internal business purposes
- State will need to have a copy of, and a license to use, the source code if it needs to be able to make any changes to the software.
- Utilize a well-drafted software escrow provision if licensor is unwilling to deliver the source code to the state
- Make sure license rights apply to source code upon access
- Make sure that source code for all new versions and upgrades are deposited into escrow (with right to verify) at the time of release

Licensing

- Clearly specify if license is "fully paid up" and distinguish any license/royalty fees from all other fees (Intellectual Property Bankruptcy Protection Act)

- Obtain sufficient reps, warranties, and indemnification provisions in the license agreement (especially WRT IP)

- Beware of certain clauses in vendor form license agreements (e.g., disclaimer of warranties, termination, LOL and limited/exclusive remedies)